

Message Text

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PAGE 01 NEW DE 12131 190742Z

21

ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 XMB-02 CAB-02 CIAE-00 COME-00

DODE-00 DOTE-00 INR-07 NSAE-00 CIEP-01 FAA-00 SSO-00

INRE-00 OMB-01 TRSE-00 SS-15 NSC-05 L-03 NSCE-00 /054 W
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O P 190635Z AUG 76

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC IMMEDIATE 7795

INFO AMCONSUL BOMBAY PRIORITY

AMEMBASSY ROME

C O N F I D E N T I A L NEW DELHI 12131

PASS EXIM BANK FOR CHAIRMAN AND EXEC. V.P. BEIM

EO 11652: GDS

TAGS: EAIR, BEXP, IN

SUBJ: EXIM BANK FINANCING OF BOEING 737S FOR INDIAN AIRLINES

REF: (A) STATE 202136, (B) NEW DELHI 12127

1. BOEING REGIONAL DIRECTOR MIKE FITZGERALD TOLD EMBOFF AUGUST 18 THE FOLLOWING REGARDING THE AUGUST 16 AIRLINES BOARD MEETING AND COMPETITION FOR INDIAN AIRLINES (IA) PROCUREMENT:

A. BETWEEN RECEIPT OF LATEST EXIM OFFER ON BOEING FINANCING (REF A) AND BOARD MEETING INDIAN AIRLINES OFFICERS TOLD FITZGERALD THAT EXIM LATEST OFFER HAD STILL NOT MET BRITISH AND DUTCH FINANCING COMPETITION OF 8 PERCENT INTEREST. HOWEVER, ON BASIS OF FITZGERALD-KIRPAL CHAND (IA FINANCIAL DIRECTOR) CONVERSATION AFTER BOARD MEETING, FITZGERALD THINKS THAT CHAND (AND PERHAPS OTHER IA OFFICIALS) ARE NOW NOT SURE WHETHER EUROPEAN FINANCIAL TERMS ARE REALLY BELOW EXIM OFFER AND THAT CHAND MAY HAVE COME TO CONCLUSION THAT EUROPEAN OFFERS HAVE AN EFFECTIVE INTEREST RATE HIGHER THAN 8 PERCENT. OTHER POSSIBILITY, ACCORDING TO FITZGERALD, IS THAT IA IS TRYING TO GET EXIM TO COME DOWN FURTHER IN ORDER TO BETTER EUROPEAN TERMS.

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PAGE 02 NEW DE 12131 190742Z

(FOKKER REPRESENTATIVE HAS TOLD FITZGERALD THAT THEIR EFFEC-

TIVE INTEREST RATE IS 8.5 PERCENT.)

B. IT STILL IS UNCLEAR TO FITZGERALD WHETHER ANY DECISION ON AIRCRAFT PROCUREMENT WAS MADE AT AUGUST 16 MEETING. ONE POSSIBILITY, ACCORDING TO FITZGERALD, IS THAT BOARD MADE DECISION IN FAVOR OF BOEING BUT THAT IA IS ATTEMPTING TO OBTAIN BETTER EXIM TERMS BEFORE PRESENTING ITS RECOMMENDATION TO CIVIL AVIATION MINISTRY. OTHER POSSIBILITY IS THAT NO DECISION WAS REACHED AND THAT IA WILL MAKE FURTHER STUDY OF PROCUREMENT SITUATION. FITZGERALD DOES NOT BELIEVE THAT THE BOARD DECIDED IN FAVOR OF EITHER FOKKER OR BAC, HE NOTED THAT AUGUST 20 IS DEADLINE FOR IA TO RESPOND TO BOEING ON PROCUREMENTS OF 737S FOR LATE 1977 DELIVERY. HE THINKS THA IA WILL REQUEST AN EXTENSION OF THIS DEADLINE. IN ANY CASE, HE PLANS TO SEE IA OFFICIALS ON AUGUST 19 IN ORDER TO GET BETTER READING OF PRESENT FLUID SITUATION BEFORE PLANNED DEPARTURE FROM INDIA ON AUGUST 20.

C. FITZGERALD SAID THAT RECENT ARTICLES IN INDIAN PRESS STRESSING GOOD POINTS OF FOKKER PLANE (REF B) WERE PLANTS BY FOKKER. ACCORDING TO FITZGERALD, INDIAN AIRLINES OFFICIALS ARE UPSET BY RECENT STORIES AND WANT PUBLICITY TO DIE DOWN. (FITZGERALD SAID THAT HE WAS SEVERLY CRITICIZED BY IA BECAUSE OF BOEING PUBLICITY HERE AT TIME OF AIRBUS PROCUREMENT DECISION.) FITZGERALD SAW TIMES OF INDIA AND ECONOMIC TIMES REPORTERS ON AUGUST 17 AND TRIED TO PRESENT FACTUAL PICTURE ON BOEING 737. HE THINKS THAT LATTER PAPER MIGHT PUBLISH A STORY AND HOPES THAT IT WILL BE ACCURATE WITHOUT BLOWING UP BOEING UNDULY.

2. COMMENT: FITZGERALD MAIN CONCERN NOW IS FINANCIAL COMPETITIVENESS BECAUSE OF UNCERTAINTY OVER EXACT TERMS BEING OFFERED BY BRITISH AND DUTCH. SECONDARY CONCERN IS THAT TOO MUCH PUBLICITY COULD BACKFIRE AS HE BELIEVES WAS THE CASE LAST TIME.

3. ALTHOUGH FITZGERALD HAS NOT BEEN ABLE TO OBTAIN POSITIVE PROOF OF TERMS OF OTHER OFFERS, EMBASSY ASSUMES FROM REF (A) THAT EXIM HAS SUFFICIENT EVIDENCE AND BELIEVES US TERMS COMPETITIVE. IT IS DIFFICULT FOR US TO ASSESS WHETHER LAST MINUTE UNCERTAINTIES NOW EVIDENT ARE PSYCHOLOGICAL EFFORTS BY IA TO IMPROVE TERMS, OR CHANGES BEING OFFERED BY OTHER
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 NEW DE 12131 190742Z

COMPETITORS. IF LATTER WE ASSUME SAME SOURCES ARE KEEPING EXIM INFORMED.

4. ON PUBLICITY, ONE COULD ARGUE THAT BOEING PUBLICITY LAST TIME ANGERED IA PRECISELY BECAUSE IT MADE SELECTION OF AIRBUS MORE DIFFICULT. HOWEVER, WE WILL RESPECT FITZGERALD JUDGEMENT ON THIS AND REFRAIN FROM FURTHER EFFORTS IN THIS AREA.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, JET AIRCRAFT, AIRCRAFT SALES
Control Number: n/a
Copy: SINGLE
Draft Date: 19 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976NEWDE12131
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760317-1353
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760838/aaaabhbe.tel
Line Count: 115
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 STATE 202136, 76 NEW DELHI 12127
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 11 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 MAY 2004 by BoyleJA>; APPROVED <12 MAY 2004 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXIM BANK FINANCING OF BOEING 737S FOR INDIAN AIRLINES
TAGS: EAIR, BEXP, IN, BOEING, XMB, INDIAN AIRLINES
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006